

In the Matter of)	No. G 98-37
)	
The Target Financial Examination of)	FINDINGS, CONCLUSIONS,
PACIFICARE OF WASHINGTON,)	AND ORDER ADOPTING REPORT
)	OF EXAMINATION
A Registered Health Care)	
Service Contractor.)	

BACKGROUND

A target examination of the financial condition of **PACIFICARE OF WASHINGTON** (the Company) as of June 24, 1996, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The target examination report with the findings, instructions and comments and recommendations was transmitted to the Company for its comments on July 17, 1998.

The Commissioner or a designee has considered the report, the relevant portions of the examiner's work papers, and submissions by the Company. The Company's responses to the report, dated August 5, 1998 and August 10, 1998, are attached to this order only for the purpose of providing convenient review of the response.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 23 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the target financial examination of **PACIFICARE OF WASHINGTON** and to order the company to take the actions described in the Findings and Instructions and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Findings and Instructions and Recommendations prior to the date of this order. The Findings and Instructions and Recommendations in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Findings and Instructions and Recommendations contained in the examination report on pages 3 through 6:

1. The Company is instructed to increase its securities on deposit to the required minimum amounts required by RCW 48.44.030, as noted in Findings and Instruction (1) of the examination report.
2. The Company is instructed to file all negotiated contracts within 30 days of the date negotiations with the group are completed as required by WAC 284-44-130(2), as noted in Findings and Instruction (2) of the examination report.
3. The Company is instructed to revise its member handbook to include language required by WAC 284-51-150 (2), as noted in Findings and Instruction (3) of the examination report.
4. The Company is instructed to document investment activity in the Board Minutes on a regular basis as required by RCW 48.13.340, as noted in Findings and Instruction (4) of the examination report.
5. The Company is instructed to change its coordination of benefits process to comply with WAC 284-51-100, as noted in Findings and Instruction (5) of the examination report.

6. The Company is instructed to revise its custodial agreements to include indemnity clauses required by the NAIC, as noted in Findings and Instruction (6) of the examination report.
7. The Company is instructed to comply with NAIC Annual Statement Instruction regarding actuarial certification, as noted in Findings and Instruction (7) of the examination report.
8. The Company is instructed to comply with NAIC Annual Statement Instruction regarding the completion of parts 2, 3, and 4 of the annual statement concerning transactions with affiliates, as noted in Findings and Instruction (8) of the examination report.
9. The Company is instructed to included in reported Statutory reserves the amount of indemnity required by the calculation in the form "Additional Data to the Annual Statement", as noted in Findings and Instruction (9) of the examination report.
10. The Company is instructed to develop reserves that are adequate to cover all claims unpaid, as noted in Findings and Instruction (10) of the examination report.
11. The Company is instructed to complete Exhibits 5, 6 and 7 to its annual statements according to NAIC Annual Statement Instructions, as noted in Findings and Instruction (11) of the examination report.
12. It is recommended that the Company establish procedures by which it can produce the report of providers required by RCW 48.44.080 on an interim basis to be able to respond to requests from regulators, employer groups and members, as noted in Recommendation (1) of the examination report.
13. It is recommended that the Company institute additional controls and training to ensure all subrogation is processed consistently according to the established procedures, as noted in Recommendation (2) of the examination report.
14. It is recommended that the Company improve communications between its units to assure proper systems data input to assure proper, timely adjudication of claims, as noted in Recommendation (2) of the examination report.

15. It is recommended that the Company review its allocation methodology to determine that it has correctly identified and captured all claim adjustment expenses, as noted in Recommendation (3) of the examination report.

16. It is recommended that the Company consolidate its contracts, update contracts to include its proper legal name, and maintain controls to ensure all contracts are signed in a timely manner, as noted in Recommendation (4) of the examination report.

ENTERED at Lacey, Washington, this 19th day of August, 1998.

DEBORAH SENN
Insurance Commissioner

By:

JAMES T. ODIORNE, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division